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SUBJECT: LIBERIA: IMPACT OF GLOBAL FINANCIAL CRISIS WORSENS

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¶1. SUMMARY: Both the GOL and International Monetary Fund (IMF) report that the impact of the global financial crisis on Liberia may be more serious than previously expected (reftels). The IMF has revised Liberia's growth projections downward from 10.3% to 6% for 2009, and from 14.8% to 8% in 2010. Minister of Finance Augustine Ngafuan said March 18 that the global crisis had knocked implementation of the Poverty Reduction Strategy (PRS) off track and could further delay the Heavily Indebted Poor Countries (HIPC) Completion Point. The negative impact of the crisis is showing up in lower export prices, lower than expected government revenues, and a drop in foreign direct investment. Liberia's policy options are limited, but the government continues to pursue measures that would stimulate trade, attract foreign investment and lower retail prices. END SUMMARY.

¶2. During a March 18 presentation at the Central Bank of Liberia, IMF Resident Representative Michael Tharkur presented revised estimates for Liberian economic growth, down from 10.3% (as projected in the 2008 PRS) to 6%. Finance Minister Ngafuan was less optimistic and suggested revenue growth might be even slower due to the severe slump in exports. Minister Ngafuan said the Ministry of Finance (MOF) would soon issue a press release to prepare the public for inevitable and increasing hardship as the economic crisis intensifies in Liberia. Job creation is the GOL's top economic priority, and Minister Ngafuan noted that Liberia's largest employers (including ArcelorMittal and Firestone) were beginning to reduce their workforces in response to financial constraints.

A Few Bright Spots

¶3. The IMF acknowledged a few positive developments from the crisis: lower import prices (particularly food and fuel) have lowered the cost of living and reduced inflation; aid flows remain stable; the banking system has been relatively insulated from the financial meltdown; and the high level of dollarization has helped contain pressures on the exchange rate. But Mr. Tharkur noted that these positives, noted in reftels, are now outweighed by the weak outlook for foreign direct investment and remittances; a dramatic drop in export revenues; a reduction in job creation; and a tighter budget thanks to slower revenue growth.

What Next?

¶4. Liberia has limited policy options. Fiscal stimulus is limited by Liberia's inability to borrow until the HIPC Completion Point, which is likely to be delayed by the financial crisis. A balanced budget is the anchor of Liberia's macroeconomic stability in the short run. Donor support remains essential, but incomplete public financial management reforms and limited capacity continue to restrict direct budget support and the government's ability to absorb aid.

¶5. The IMF recommended the GOL consider some short-term policy options, including lowering the government controlled price for rice to allow lower import prices to pass through to consumers; limited use of foreign reserves to defend the exchange rate; finalization and passage of fiscal and investment regimes to encourage foreign investment; and stronger coordination by government and donors to target strategic priorities. Minister Ngafuan concurred with

Tharkur and noted the GOL was focusing on increasing food production to get through the crisis. Minister Ngafuan said President Sirleaf has appealed to the World Bank to redouble its efforts to meet disbursement targets for 2009, particularly for construction of roads vital to agriculture production.

¶6. COMMENT: Downward revisions to growth estimates are not unexpected, but the impact of the global crisis in Liberia is quickly moving from the abstract to reality, and policy-makers and partners are scrambling to respond. The GOL is focused on the potential impact on poverty reduction efforts and debt relief, and is concerned that further economic pressure on vulnerable populations could affect stability. The slump in rubber prices has already led to labor unrest and violence in some cases. Donors can mitigate those destabilizing risks, particularly through targeted budget support, continued capacity building, emergency social programs, and private sector development initiatives. However, continued GOL efforts to control the price of essential commodities will lead to ongoing disruptions in supply and subsequent price spikes. Controls on rice and cement should be replaced by targeted assistance to those most threatened by price spikes. We should continue to advocate for timely passage of essential legislation reforming public financial management, procurement, the revenue code and the investment climate, and for rapid ratification of pending investments in power production and iron ore mining.

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